

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CHELSEA RECREATION COUNCIL	County WASHTENAW
Audit Date 8/31/05	Opinion Date 10/4/05	Date Accountant Report Submitted to State: 12/2/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BERTHIAUME & COMPANY CPAS			
Street Address 60 HARROW LANE	City SAGINAW	State MI	ZIP 48638
Accountant Signature <i>Bernetha Berthiaume</i>		Date 12-2-05	

CHELSEA RECREATION COUNCIL

Chelsea, Michigan

FINANCIAL STATEMENTS

August 31, 2005

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INDEPENDENT AUDITORS' REPORT

Council Members
Chelsea Recreation Council
Chelsea, Michigan

We have audited the accompanying financial statements of the business-type activities as of and for the year ended August 31, 2005, which comprises the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chelsea Recreation Council management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Chelsea Recreation Council, as of August 31, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chelsea Recreation Council's, basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.
October 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHELSEA RECREATION COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Chelsea Recreation Council's financial performance provides an overview of the Council's financial activities for the fiscal year ended August 31, 2005. Please read it in conjunction with the Council's financial statements.

Chelsea Recreation Council as a Whole

The following table shows, in condensed format, the net assets as of the current date, for the year ended August 31, 2005 and 2004 (amounts in thousands).

Statement of Net Assets

	2005	2004
Assets:		
Current assets	\$ 81	\$ 71
Noncurrent assets	3	-
Total assets	84	71
Current liabilities	13	9
Net Assets:		
Invested in capital assets	3	-
Unrestricted	68	62
Total net assets	\$ 71	\$ 62

Statement of Activities

Revenues:		
Program revenues	\$ 158	\$ 150
Operating grants and contributions	10	12
General revenues	12	19
Total revenues	180	181
Expenses:		
Recreation program expenses	171	175
Increase in net assets	9	6
Net assets, beginning of year	62	56
Total net assets	\$ 71	\$ 62

The Council's combined net assets increased by approximately \$9,000 due to the increase in revenue of approximately \$4,000 and a decrease in expense of about \$5,000. Program fees revenue increased by nearly \$8,000. This was due to an overall increase in participants. Rates have not been significantly increased. Sponsorship and royalty revenues decreased by about \$6,000.

CHELSEA RECREATION COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Economic Factors

The Chelsea Recreation Council's budget for next year calls for minor changes. No significant economic factors have been identified.

Contacting the Council's Management

This financial report is intended to provide our citizens, customers, and investors with a general overview of the Council's finances and to show the Council's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Council's office at P.O. Box 307, Chelsea, MI 48118.

BASIC FINANCIAL STATEMENTS

CHELSEA RECREATION COUNCIL

STATEMENT OF NET ASSETS

August 31, 2005

	Business- type Activities
Assets:	
Cash and cash equivalents	\$ 67,364
Receivables	1,774
Inventory	11,798
Capital assets:	
Depreciable capital assets, net	<u>2,974</u>
Total assets	<u>83,910</u>
Liabilities:	
Accounts payable	1,889
Deferred revenue	<u>10,601</u>
Total liabilities	<u>12,490</u>
Net Assets:	
Investment in capital assets, net of related debt	2,974
Unrestricted	<u>68,446</u>
Total net assets	<u>\$ 71,420</u>

The accompanying notes are an integral part of these financial statements.

CHELSEA RECREATION COUNCIL

STATEMENT OF ACTIVITIES

Year Ended August 31, 2005

	Business- type Activities
Expenses:	
Recreation programs	<u>\$ 170,821</u>
Program revenues:	
Charges for services	158,428
Operating grants and contributions:	
United Way contribution	3,000
Other grants	6,939
General revenues:	
Interest	576
Sponsorships	7,918
Royalty	2,319
Other	<u>667</u>
Change in net assets, net (expense) revenue	9,026
Net assets, beginning of year	<u>62,394</u>
Net assets, end of year	<u>\$ 71,420</u>

The accompanying notes are an integral part of these financial statements.

CHELSEA RECREATION COUNCIL

STATEMENT OF CASH FLOWS

Year Ended August 31, 2005

	Recreation Programs
Cash flows from operating activities:	
Cash received from program participants	\$ 170,867
Cash payments to employees	(57,107)
Cash payments for goods and services	<u>(130,466)</u>
Net cash provided (used) by operating activities	<u>(16,706)</u>
 Cash flows from non-capital financing activities:	
Contribution from United Way	3,000
Grant	6,939
Sponsorships	7,918
Royalty	2,319
Other	<u>667</u>
Net cash provided (used) by non-capital financing activities	<u>20,843</u>
 Cash flows from investment activities:	
Interest	<u>576</u>
 Net increase (decrease) in cash and cash equivalents	4,713
Cash and cash equivalents, beginning of year	<u>62,651</u>
Cash and cash equivalents, end of year	<u>\$ 67,364</u>

The accompanying notes are an integral part of these financial statements.

CHELSEA RECREATION COUNCIL

NOTES TO FINANCIAL STATEMENTS

August 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chelsea Recreation Council, a recreation board, was established by the Village of Chelsea in 1971 under the provisions of public act 156 of 1917, as amended, to provide for the operation of a system of public recreation and playgrounds in cooperation with the Chelsea School District.

The accounting policies of the Chelsea Recreation Council conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Council. There are no component units. The Recreation Council is not a component of any other reporting entity.

Basis of Presentation – Fund Accounting:

The accounts of the Council are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Currently the council has only one business-type fund for its recreation program activities.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government. These type of statements usually distinguish between activities that are governmental and those that are business-type activities. The Council currently has only one business-type fund/activity.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Council's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Council first utilizes restricted resources to finance qualifying activities. The Council currently has no restricted net assets.

The statement of activities reports both the gross and net cost of each of the Council's functions. The functions are also supported by general government revenues (certain intergovernmental revenues, if any, and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (interest income, etc.). The Council does not allocate indirect costs.

CHELSEA RECREATION COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2005

The government-wide focus is on the sustainability of the Council as an entity and the change in the Council's net assets resulting from current year activities.

Program fees, grants, and other revenue, if any, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Council reports its only fund as a major governmental fund as follows:

Recreation Fund – The Recreation Fund is used to account for the revenues and expenses for the operation of the recreation program.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments, if any, with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories and Prepaid Items – Inventory consists of supplies (bats, balls, helmets, etc.) and athletic equipment (nets, backboards, etc.) which are used and re-used in program activities. The Council reports its inventory at the lower of cost or fair value. The fair value of the inventory, which is lower than original cost, is estimated at 25% of its current replacement cost. Certain payments to vendors reflect costs applicable to future fiscal years and may be recorded as prepaid items in the financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, if any, are recorded at their estimated fair market value at the date of donation. The Council defines capital assets as assets with an initial individual cost in excess of \$250. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Office equipment is depreciated using the straight-line method over the following useful lives:

Furniture and other equipment	5-10 years
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Compensated Absences – Employees are not allowed to accumulate vacation and sick pay and therefore, no accumulated amount has been reported in accordance with Governmental Accounting Standards Board's Statement No. 16 "*Accounting for Compensated Absences*."

Long-term Obligations – In the government-wide financial statements long-term debt and other long-term obligations, if any, are reported as liabilities in the applicable business-type activities statement of net assets. Currently the Council has no long-term obligations.

Deferred Revenue – The government-wide full accrual financial statements report deferred revenue in connection with revenue that has not been earned since it related to advance collection of program fees for programs which will be provided subsequent to the end of the current fiscal year. Also, grant monies received, if any, that have not been expended are reported as deferred revenue.

CHELSEA RECREATION COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2005

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Council's cash is comprised of bank deposits that are reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$67,364. The entire amount was covered by federal depository insurance.

The Recreation Council's deposits are in accordance with statutory authority. The organization does not have any investments.

NOTE 3: CAPITAL ASSETS

Capital assets activity of the Council's business-type activity was as follows:

	Balance Sept. 1, 2004	Additions	Disposals and Adjustments	Balance Aug. 31, 2005
<i>Business-type activities:</i>				
Recreation capital assets:				
Capital assets being depreciated				
Office furniture and equipment	\$ 5,000	\$ 3,305	\$ -	\$ 8,305
Subtotal	5,000	3,305	-	8,305
Accumulated depreciation	5,000	331	-	5,331
Net recreation capital assets	-	2,974	-	2,974
Net business-type capital assets	\$ -	\$ 2,974	\$ -	\$ 2,974

Depreciation expense was charged to programs of the primary government as follows:

<i>Business-type activities:</i>	
Recreation	\$ 331
Total business-type activities	\$ 331

CHELSEA RECREATION COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2005

NOTE 4: RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council manages its liability and property risk by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing property and liability coverage to its participating members. The Council pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Council manages its workers' compensation insurance by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The Council pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 5: POST EMPLOYMENT BENEFITS

The Council does not currently provide any post employment benefits.

NOTE 6: DEFERRED REVENUE

Deferred revenue as of August 31, 2005 consists of the following:

Program fee receipts during August 2005 that are for the fall 2005 programs	\$ 10,601
Grant revenues that were not yet spent as of August 31, 2005	-
Total	<u>\$ 10,601</u>

SUPPLEMENTAL FINANCIAL INFORMATION

CHELSEA RECREATION COUNCIL

DETAILED STATEMENT OF PROGRAM EXPENSES

For the Year Ended August 31, 2005

DIRECT RECREATION PROGRAM EXPENSES:

Advertising	\$ 677
Awards	682
Boosters	12,469
Supplies and equipment inventory expense	3,756
Clinic camp payouts	1,913
Clinic instructors and coaches	17,328
HS Helpers	1,884
Officials	12,964
Other	3,127
Portable lavatory	937
Refunds	6,842
Set-up costs	1,539
Site supervisors	1,782
Supplies	3,940
T-shirts	13,429
Tournament fees	1,130
	<hr/>
Total direct program expenses	84,399

INDIRECT AND ADMINISTRATIVE PROGRAM EXPENSES:

Advertising	4,278
Audit and accounting	2,995
Bank, credit card, and paypal charges	2,960
CPR expense	362
Dues and fees	882
Depreciation	331
Insurance -- liability & WC	2,932
Maintenance and repairs	300
Office supplies and other expense	1,819
Other administrative expense	371
Postage	818
Rent -- office	3,250
Rent -- storage	1,300
Salaries and wages	57,107
Taxes -- payroll	4,715
Telephone	1,499
Web site	503
	<hr/>
Total indirect and administrative expense	86,422
	<hr/>
Total recreation program expense	\$ 170,821

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MANAGEMENT LETTER

To the Council Members
Chelsea Recreation Council
Chelsea, Michigan

We have audited the general purpose financial statements of the Chelsea Recreation Council, Chelsea, Michigan, as of and for the year ended August 31, 2005, and have issued our report thereon dated October 4, 2005. As a part of our audit, we made a study and evaluation of the Recreation Council's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the general purpose financial statements and to assist the auditor in planning and performing his audit of the general purpose financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing general purpose financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of general purpose financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our audit of the general purpose financial statements made in accordance with generally accepted auditing standards, including the study and evaluation of the Recreation Council's system of internal accounting control for the year ended August 31, 2005, that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. Our study and evaluation disclosed no conditions that we believe to be material weaknesses. We noted the following:

Checking Account Reconciling Items:

We found that the checking account bank reconciliation contained several very old uncleared checks and adjustments. The total amount of these items is approximately \$2,400 of outstanding checks and \$125 of outstanding general journal credits.

Checking Account Reconciling Items, continued:

Outstanding payroll checks should be re-issued to the employees if the person can be located. If the person cannot be located then the money should be paid to the State of Michigan Treasury, Escheats Division.

Other old uncleared checks and credits should be reversed off the Quickbooks with a journal entry in the 2005-2006 fiscal year.

We express our appreciation for the courtesies and cooperation extended to us while conducting the audit.

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

October 4, 2005

